HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Thunder Bay CMA

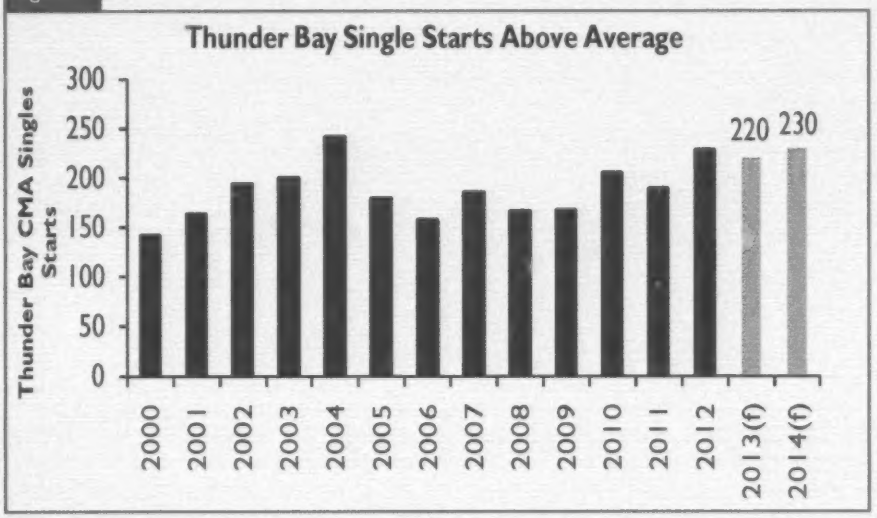
CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Fall 2013

Highlights

- Existing home sales will grow over the forecast horizon (2013-2014). Seller's market conditions prevail in Thunder Bay given the tight supply situation, increasing average resale prices this year and in 2014.
- Growing employment and the seller's market will create conditions for above-average single-detached housing starts.
- Total housing starts will slip both this year and next, after two exceptional years for multi-family unit starts.

Figure 1



(f) CMHC Forecast.

The forecasts included in this document are based on information available as of October 16, 2013.

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New Home Market: Expect Above Average Starts in 2013

Stable economic fundamentals and a tight resale market have given rise to above average home building this year. Condominium construction has stolen the limelight over the past twelve months with three distinct projects getting under way. The aging population, a large mortgage-free population and rising resale prices have created good conditions for selling an existing resale home and moving to a condominium lifestyle. Given the late start to the year due to unseasonably cool weather, above-average starts this fall is not out of the question.

Although, single-detached starts are trailing last year's healthy levels, the 220 singles expected this year and 230 units expected in 2014 will be above the 20 year average for single-detached construction in Thunder Bay. Another above average year for multi-family starts will bring the 2013 total to 360 units. Despite rumours of more apartment starts, only a modest number will be started this year without much change expected in 2014. All told, multiple unit starts will reach 140 units this year and 110 units in 2014. Both forecast totals will trail the 153 multiple unit starts recorded in 2012 but both figures will surpass the 25-year average for multiple unit starts.

Three condominium projects currently under construction represent the most condominium units under construction at one time in Thunder Bay's 40-year history of condominium activity, with the potential exception of 1988-89. Given anticipated completion dates stretching from this fall to early 2015, absorption will be staggered. List prices for all three projects are at the high end of the market, given historic condominium unit pricing.

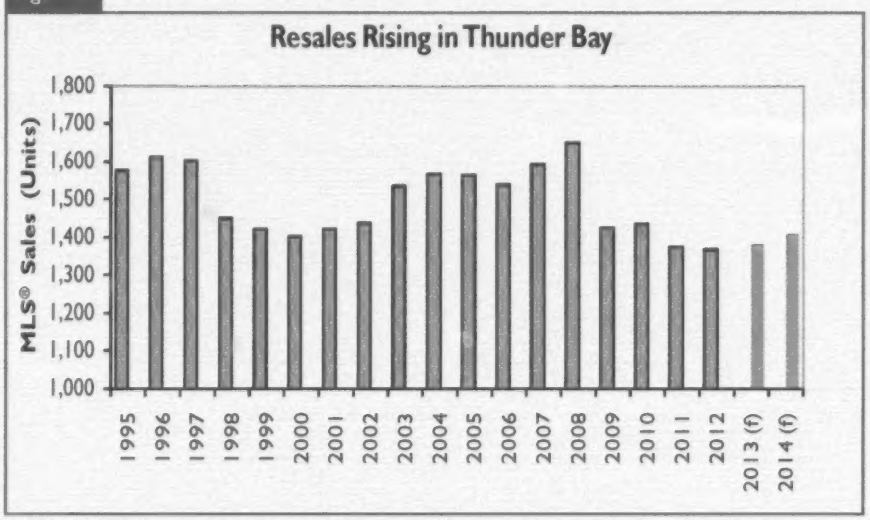
Given tight market conditions, a slight increase in building without a pre-sale suggests new home builders are gaining confidence that their units can sell during the construction phase or certainly within a reasonable time after completion. Currently, we are monitoring a slight increase in unabsorbed units for the first eight months of 2013. The levels are still well below a level that would cause any concern. The lack of supply in the resale market and strong seller's market conditions are key factors for the burgeoning level of confidence. This is unlikely to change during the forecast horizon.

The average value of completed and occupied units for the first eight months of 2013 show price gains well above inflation and are a reflection of the unit mix that comprises the sample of units from which average price has been drawn. Average prices for newly completed and occupied units are estimated to be over $400,000 in the year-to-date and are higher than the median house price. This indicates a smaller number of homes are being sold at the top end of the market. Nonetheless, the spread between last year's prices and this year's reveals a tendency towards more larger-custom-built homes in the local marketplace. Meanwhile, strong growth in resale prices and higher costs for land and other building materials will encourage builders to raise prices.

Existing Home Market: Seller's Market Continues

According to CMHC analysis of Thunder Bay Real Estate Board data, third quarter sales reached 434 units, the strongest level of Q3 sales since 2009. More units to choose from did help with the growth in sales as 564 new listings came on stream in Districts 1 and 2 in the July to September period, the highest

Figure 2



(f) CMHC Forecast; Note: TBREB MLS® sales are for Districts 1 & 2 only.
Source: TBREB & CREA, CMHC.
MLS® is a registered trademark of the Canadian Real Estate Association.

level since 2009. Secondly, the fear of rising mortgage rates has pushed some purchasers to action. This was especially noticeable in August. A modestly growing economy will boost sales this year one per cent and another 2.2 per cent in 2014.

The time it takes to sell a house is another sign of market strength with the lower the average number of days, the stronger the market conditions. Clearly, with listings only taking 30 days to sell on average, Thunder Bay's market favours sellers. The conditions are markedly different from 2007 when it took 54 days on average for a house to sell. Time on the market is expected to rise slightly as supply increases given the number of condos in the construction pipeline.

On the supply side, despite the increase in listings in the third quarter, new MLS listings are off nearly one per cent for the year in Districts 1 and 2, while active listings, as of September 30th, matched the all-time low from two years ago for September 30th, with 220 units being active and for sale. Early mention of three new condominium projects being started does offer some promise for increased listings as does strong price appreciation in the resale market, potentially leading some households to think about capitalizing on this market movement.

After an amazing year for resale price appreciation in 2012 with prices rising 15.1 per cent from the year prior, we expect 9.2 price growth in 2013 and four per cent in 2014. Price growth was at a fever pitch in 2013 in May when 62.2 per cent of all sales in the month sold at or over list price. The sell-price-to-list-price ratio that month was 103 per cent. Thunder Bay's aging population is not trading houses like they were when they were younger, a natural phenomenon which has been observed elsewhere. This will continue limiting listings, all things being equal, resulting in tighter market conditions in Thunder Bay over the forecast horizon. Again, condominium units under construction do have the potential to increase listings, once locally-based purchasers who own resale homes consider listing them for sale.

Rental Market: Rental Vacancies to Continue Trending Down

According to CMHC's Spring 2013 Rental Market Survey (RMS), the vacancy rate among apartments with at least three units (3+) in the Thunder Bay Census Metropolitan Area (CMA) rose to 2.4 per cent in April 2013, up from 1.8 per cent in April 2012. This upswing in the vacancy rate was an anomaly given that Thunder Bay's vacancy rate has been on a downward trend since 2006. CMHC expects the vacancy rate will continue declining this fall and into 2014.

Demand will outstrip supply in 2013 and 2014 primarily due to the lack of new supply coming on stream in the Thunder Bay market. Positive in-migration led by more international students seeking rental accommodation and Thunder Bay being a hub for the Northwestern Ontario region that continues to experience mixed economic circumstances. Employment growth will also result in more rental demand given recent hires migrating to Thunder Bay who may choose rental accommodation first, as they begin settling in the city.

A buoyant resale market backstopped by continuing low mortgage rates will work to draw renters out of rental accommodation into homeownership. All things considered, the fall vacancy rate, which stood at 1.1 per cent in 2012, is forecast to decline further to 0.9 per cent in 2013. Lower vacancy rates will result in increased growth in rents with the average two-bedroom rents once again rising above the provincial rent guideline in 2013 of 2.5 per cent. Watch for Thunder Bay two bedroom rents to rise 3.0 per cent in 2013 given the tight vacancy rate environment.

Economic Trends: After Slow Start, Employment Picks Up in Thunder Bay

After a weak first four months of 2013, employment growth has picked up in Thunder Bay. Despite weaker commodity prices, Thunder Bay continues to prepare for mining operations in the region with much of that planning being done from Thunder Bay. The goods producing sector is creating jobs and service sector employment has been steadily growing too. Although precious metal and base metal prices will be stable in 2014, the goods-producing sector should still perform well in 2014, which will work to push up the services-producing sector as well.

Newsprint, pulp and lumber prices should perform reasonably well, the latter due to the ongoing recovery in the US housing market. While year-to-date job growth is mildly positive when compared to one year previous, a strong run-up in employment is being observed that commenced in May and June. Given the increased trajectory of employment, CMHC expects job growth of 1.6 per cent in

Figure 3

to September 2013, Forecast 2013 and 2014.
Source: Statistics Canada Labour Force Survey

2013 and another 1.8 per cent in the year ahead.

Labour force growth has not kept pace with employment growth leading to stronger income growth as evidenced in stronger average weekly earnings. Employment growth and a relatively low unemployment rate are linked to the evolution of the local economy to more mining, medical research and other knowledge sector jobs. Look for average weekly earnings to grow 5.4 per cent this year and 3.0 per cent in 2014. The number of institutional, commercial and residential projects currently under construction and those in the works, not the least of which is those happening on Thunder Bay's waterfront contribute to boosting the city's level of confidence moving through the second decade of the 21st century.

Mortgage Rate Outlook

- Mortgage rates to see modest and gradual increases late in the forecast horizon but will remain low by historical standards.
- Following the June meeting of the Federal Open Market Committee (FOMC) of the U.S. Federal Reserve Board, interest rates rose modestly and then remained steady in both the U.S. and Canada. According to the Federal Reserve Bank of New York, this reflected a change in the risk assessment of investors and not a change in the expected future path of interest rates[1].
- CMHC's interest rate forecast mirrors this view. Hence, mortgage rates have been slightly revised up in the third quarter of 2013 but, thereafter, follow the same interest rate path as before. Nevertheless, this interest rate outlook will continue to be supportive of housing market activity over the forecast horizon, as mortgage rates will remain low by historical standards.
- Mortgage rates are expected to increase gradually and steadily over the forecast horizon. By the end of 2014, mortgage rates are forecast to be somewhat higher than in the third quarter of 2013. According to CMHC's base case scenario for 2013, the average for the one-year posted mortgage rate is forecast to be within 3.00 per cent to 3.50 per cent, while the average for the five-year posted mortgage rate is anticipated to be within 5.00 per cent to 5.50 per cent. For 2014, the average for the one-year posted mortgage rate is expected to rise and be in the 3.25 per cent to 3.75 per cent range, while the average for the five-year posted mortgage rate is forecast to be within 5.25 per cent to 6.00 per cent.

Mortgage rates		
1 Year	Q3 2013	3.14
	Change from Q3 2012	0.04
	2013 (F)	3.00 - 3.50
	2014 (F)	3.25 - 3.75
5 Year	Q3 2013	5.27
	Change from Q3 2012	0.03
	2013 (F)	5.00 - 5.50
	2014 (F)	5.25 - 6.00

Source: Bank of Canada, CMHC Forecast
NOTE: Mortgage rate forecast is based on Q3 2013 data

[1] "Preparing for Takeoff? Professional Forecasters and the June 2013 FOMC Meeting," Federal Reserve Bank of New York (2013). Richard Crump, Stefano Eusepi, and Emanuel Moench (http://libertystreeteconomics.newyorkfed.org/2013/09/preparing-for-takeoff-professional-forecasters-and-the-june-2013-fomc-meeting.html)

Trends at a Glance

Key Factors and their Effects on Housing Starts	
Mortgage Rates	Short term mortgage rates are expected to remain at historical low levels which will continue to support housing demand.
Employment	After a weak start to 2013, employment in Thunder Bay is surging ahead with gains being seen in full-time work and in both the goods and services producing sector.
Income	Average weekly earnings are growing strongly reflecting some tightness in the labour market. The unemployment rate is below the provincial average
Population	Migration has been positive for three years running, a requirement for population gain given deaths outstripping births annually.
Resale Market	Seller's market conditions persist with low listings and reasonable demand being the key determinants.
Other	Mining development has been hampered by weaker commodity prices.

Forecast Risks

This outlook is subject to some risks including:

- A stronger than expected U.S. economic recovery could positively impact Canadian economic growth, contributing to a higher level of activity in Canada's housing markets.
- The number of completed and unoccupied units is growing, but is still at modest levels. Should the inventory increase inordinately, consumers may ultimately benefit from the increased supply, which is much needed given how lack of resale supply has been driving up prices.
- Although consumer bankruptcies in Thunder Bay are at the lowest point in at least ten years, a spike in mortgage rates could force heavily indebted households to liquidate some of their assets including their homes.
- Economic growth in emerging countries could surprise to the upside. This could influence commodity prices positively which would bolster employment growth in the mining industry benefitting mining service centres like Thunder Bay.

Forecast Summary Thunder Bay CMA Fall 2013							
	2010	2011	2012	2013f	% chg	2014f	% chg
New Home Market							
Starts:							
Single-Detached	204	188	227	220	-3.1	230	4.5
Multiples	18	186	153	140	-8.5	110	-21.4
Semi-Detached	10	8	6	10	66.7	10	0.0
Row/Townhouse	4	12	17	10	-41.2	20	100.0
Apartments	4	166	130	120	-7.7	80	-33.3
Starts - Total	222	374	380	360	-5.3	340	-5.6
Average Price ($):							
Single-Detached	319,582	324,604	355,385	390,924	10.0	410,470	5.0
Median Price ($):							
Single-Detached	309,900	312,000	329,900	379,385	15.0	405,942	7.0
New Housing Price Index (% chg) (Thunder Bay-Sudbury)	-0.5	0.1	1.3	1.3	-	1.5	-
Resale Market							
MLS® Sales	1,434	1,373	1,367	1,380	1.0	1,410	2.2
MLS® New Listings	1,831	1,677	1,631	1,600	-1.9	1,620	1.3
MLS® Average Price ($)	155,060	168,672	194,123	212,000	9.2	221,000	4.2
Rental Market							
October Vacancy Rate (%)	2.2	1.7	1.1	0.9	-0.2	0.7	-0.2
Two-bedroom Average Rent (October) ($)	763	772	818	840	2.7	860	2.4
Economic Overview							
Mortgage Rate (1 year) (%)	3.49	3.52	3.17	3.00 - 3.50	-	3.25 - 3.75	-
Mortgage Rate (5 year) (%)	5.61	5.37	5.27	5.00 - 5.50	-	5.25 - 6.00	-
Annual Employment Level	59,800	59,500	61,000	62,000	1.6	63,100	1.8
Employment Growth (%)	0.3	-0.5	2.5	1.6	-	1.8	-
Unemployment rate (%)	6.6	6.9	5.4	6.4	-	6.3	-
Net Migration	457	266	208	300	44.2	350	16.7

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly **Starts and Completions Survey**. Building permits are used to determine construction sites and visits confirm construction stages. A **start** is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:
The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:
The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:
Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:
Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:
Are estimated using CMHC's **Market Absorption Survey**, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "**absorbed**" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:
Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:
Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:
Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October Rental Market Survey (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which. have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:
The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:
The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate. Source: Statistics Canada's Labour Force Survey.

Net Migration:
Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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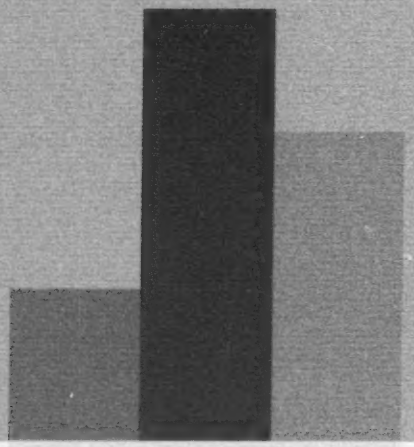

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